

STATE OF INDIANA

FILED

BEFORE THE

APR 18 2012

INDIANA UTILITY REGULATORY COMMISSION

INDIANA UTILITY
REGULATORY COMMISSION

VERIFIED PETITION OF INDIANA MICHIGAN POWER)
COMPANY ("I&M"), AN INDIANA CORPORATION,)
PURSUANT TO INDIANA CODE CHAPTER 8-1-8.8 AND)
§§ 8-1-2-23, 8-1-2-10, 8-1-2-12, 8-1-2-14, AND 8-1-2-42(a),)
AND §§ 5-14-3-4 AND 8-1-2-29, REQUESTING THAT THE)
COMMISSION: (1) FIND THAT I&M'S PROPOSED LIFE)
CYCLE MANAGEMENT PROJECT AT THE DONALD C.)
COOK NUCLEAR PLANT IS REASONABLE AND)
NECESSARY; (2) APPROVE THE ESTIMATED)
CONSTRUCTION COSTS AND SCHEDULE OF THE)
PROPOSED LIFE CYCLE MANAGEMENT PROJECT;)
(3) AUTHORIZE I&M TO RECOVER, ON A TIMELY)
BASIS VIA A PERIODIC RATE ADJUSTMENT)
MECHANISM, THE COSTS AND EXPENSES)
ASSOCIATED WITH THE LIFE CYCLE MANAGEMENT)
PROJECT (INCLUDING STUDY, ANALYSIS AND)
DEVELOPMENT COSTS, IN ADDITION TO)
CONSTRUCTION, FINANCING, AND OTHER COSTS);)
(4) GRANT I&M AUTHORITY TO DEFER SUCH COSTS)
ON AN INTERIM BASIS UNTIL SUCH COSTS ARE)
REFLECTED IN I&M'S RETAIL ELECTRIC RATES;)
AND (5) GRANT I&M SUCH FURTHER RELIEF AS MAY)
BE NECESSARY OR APPROPRIATE)

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VERIFIED PETITION

TO THE INDIANA UTILITY REGULATORY COMMISSION:

Indiana Michigan Power Company ("Petitioner" or "I&M"), respectfully
represents and shows:

1. **Petitioner's Corporate and Regulated Status.** I&M, a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP"), is a corporation organized and existing under the laws of the State of Indiana, with its principal executive office at One Riverside Plaza, Columbus, Ohio 43215, and with its principal Indiana office at One Summit Square, P.O. Box 60, Fort Wayne, Indiana 46801. I&M owns and operates electric utility properties in Indiana and southwestern Michigan. Petitioner is a "public utility" within the meaning of the Indiana Public Service Commission Act, as amended (the "Act"); accordingly, I&M is subject to the jurisdiction of this Commission in the manner and to the extent provided by the laws of the State of Indiana.

I&M is engaged in, among other things, rendering retail electric service to approximately 583,000 customers within a service area covering approximately 8,260 square miles in northern and east-central Indiana and southwestern Michigan. In Indiana, I&M provides retail electric service to approximately 455,000 customers in the following counties: Adams, Allen, Blackford, DeKalb, Delaware, Elkhart, Grant, Henry, Huntington, Jay, LaPorte, Madison, Noble, Randolph, St. Joseph, Steuben, Tipton, Wabash, Wells, and Whitley. In Michigan, I&M currently provides retail electric service to approximately 128,000 customers. In addition, I&M serves customers at wholesale in the States of Indiana and Michigan. I&M owns, operates, manages and controls plant and equipment within the States of Indiana and Michigan that are in service and used and useful in the generation, transmission, distribution and furnishing of such service to the public. I&M has maintained and continues to maintain its properties in a reliable

state of operating condition. I&M is a member of the PJM Interconnection, LLC ("PJM"), a FERC-approved regional transmission organization.

2. **Petitioner's Existing Electric Generating Facilities; the Cook**

Nuclear Plant. Petitioner operates six coal-fired generating units: Rockport Unit 1 (1300 MW), Rockport Unit 2 (1300 MW)¹, Tanners Creek Unit 1 (145 MW), Tanners Creek Unit 2 (145 MW), Tanners Creek Unit 3 (205 MW) and Tanners Creek Unit 4 (500 MW). I&M also owns and operates the Donald C. Cook Nuclear Plant ("Cook Plant"), a nuclear fueled, steam electric generating station, located in Bridgman, Michigan. Units 1 and 2 of the Cook Plant are rated at approximately 1084 MW (net) and 1107 MW (net), respectively. The units at the Cook Plant are powered by nuclear reactors of the pressurized water type and essentially emit no air emissions (such as SO₂, NO_x, mercury, particulates, etc.) or CO₂². Thus, in addition to providing cost-effective and reliable baseload power, the Cook Plant provides essentially emission-free electricity -- a significant benefit in light of continuing and increasingly stringent regulation of various air emissions from fossil-fueled powerplants, potentially including CO₂.

Cook Units 1 and 2 were placed in service in 1975 and 1978, respectively, under a 40-year Nuclear Regulatory Commission ("NRC") operating license received in 1974 and 1977, respectively. These units have operated safely and reliably for many years.

¹ I&M receives 1105 MW of output from each Rockport unit with the remainder assigned to Kentucky Power Company.

² The electricity generated from the primary fission processes at the Cook Plant is produced without emitting air emissions such as SO₂, NO_x, mercury, particulate, or carbon. However, because other processes (such as operating the backup diesel generators) emit minimal amounts of emissions, the Cook Plant is not technically completely emission free or carbon free.

The original 40-year operating license commenced with issuance of the construction permit for Units 1 and 2. Through efforts before the NRC, I&M first received operating license extensions in 1991 to cover the period between construction permit issuance and operating license issuance and then in 2005, I&M received additional license extensions from the NRC to allow Units 1 and 2 to operate until 2034 and 2037, respectively. Life cycle management investments, along with normal ongoing replacements and additions, and associated operating and maintenance expenses, are needed at the Cook Plant in order achieve the benefits of the extended operating licenses.

3. **The Life Cycle Management Project.** "Life Cycle Management" ("LCM") for a nuclear power plant consists of the integration of aging management and economic planning to: (1) optimize the operation, maintenance, and service life of systems, structures and components; (2) maintain an acceptable level of performance and safety; and (3) maximize return on investment over the service life of the plant. LCM is integrally related to the continued safe, reliable and economic operation and availability of the Cook Plant during its extended operation license lives. I&M's LCM Project at its Cook Plant consist of a group of projects (referred to herein as "sub-projects") requiring significant capital investment (along with associated operating and maintenance expenses) intended to fulfill the extended unit operating licenses by: safely and reliably extending the operating lives of Units 1 and 2 consistent with their operating licenses (i.e., until 2034 and 2037, respectively); increasing the safety and reliability of these units; and also preserving the option for a potential future increase in

the electric output of these units through a potential future "capacity uprate." The specific LCM sub-projects and timelines for which relief is requested by this petition were reviewed in a detailed study to determine the best available options and optimal mix of sub-projects and timing (for example, to utilize planned outages at the Cook units as much as possible for construction of LCM sub-projects at such units). This LCM endeavor is a long-term endeavor, and the LCM Project in its entirety will not be completed until approximately 2018.

Importantly, the fulfillment of the extended NRC operating licenses for the Cook Plant is expected to be extremely beneficial for Petitioner and its customers because nuclear generation is one of the few types of baseload generation that will not be adversely affected by anticipated new, increasingly stringent federal air emissions regulations; nor does nuclear generation produce CO₂ emissions, which may also be regulated in the future. Related to this, Petitioner expects to retire several of its older, coal-fired generating units in the near future due to these increasingly stringent federal and air emissions regulations.

Petitioner estimates that the total cost of the LCM Project, to be incurred through approximately 2018, will be \$1.169 billion in direct capital costs (exclusive of AFUDC). Petitioner will provide additional detail about the LCM Project, the estimated costs and schedule for the Project, Project oversight and Project management, and cost-effectiveness of the Project, in its case-in-chief testimony. Because this will be a substantial investment, it is important to I&M and its customers that the LCM Project and associated costs be reviewed and found by the Commission to be reasonable and

necessary and recoverable through retail rates on a timely basis. Accordingly, I&M seeks an open and transparent process to allow for a complete review of the LCM Project and associated costs and, in furtherance of that goal, I&M has briefed potential intervenors on the LCM Project in advance of this filing.

4. **Petitioner's Requests for Relief.** In this proceeding, Petitioner requests that the Commission review and approve as reasonable and necessary its LCM Project, including its estimated costs and schedule for such Project, and find that the Project when completed will be used and useful in the provision of retail electric utility service to Petitioner's Indiana customers. Petitioner also requests that the Commission approve certain ratemaking and accounting treatment for the LCM Project so as to allow for full and timely recovery of its reasonable construction and operation costs associated with the LCM Project, as well as reasonable study, analysis and development costs incurred in connection with the LCM Project. Timely recovery of the LCM Project costs via a periodic rate adjustment mechanism will assist Petitioner in maintaining necessary cash flows and credit quality, will lower overall LCM Project costs, and will benefit both I&M and its customers. I&M will be making a similar request for regulatory review and approval of the LCM Project by the Michigan Public Service Commission.

Specifically, Petitioner requests that the Commission authorize it to: (a) recover on a timely basis its financing costs incurred during construction of the LCM Project, for all such sub-projects that are under construction on and after January 1, 2012; (b)

recover on a timely basis its post-in-service financing costs, and incremental depreciation and property tax costs and expenses, associated with the LCM Project and incurred on and after January 1, 2012; and (c) recover on a timely basis its costs associated with the study, analysis, or development of the LCM Project, all via a periodic rate adjustment mechanism to commence upon approval by the Commission in this proceeding and to be updated every six months thereafter. Additionally, Petitioner requests that the Commission authorize it to defer, on an interim basis, certain operation and maintenance costs (specifically, incremental depreciation and property tax costs), along with study, analysis and development costs, until the applicable costs are included in Petitioner's retail electric rates. Petitioner also requests that the Commission authorize it to add all earnings on its LCM Project to its authorized net operating income for earnings test purposes of the FAC earnings test under Ind. Code § 8-1-2-42(d)(3). Petitioner also requests that the Commission grant confidential treatment, pursuant to Ind. Code §§ 8-1-2-29 and 5-14-3-4, for certain information to be filed in support of its request for relief. Concurrently with the filing of its case-in-chief testimony, Petitioner will file a motion and a supporting affidavit detailing the confidential treatment requested and the reasons therefor. Finally, in order to achieve a more open and transparent public process with respect to the construction of the LCM Project, Petitioner requests that the Commission institute an ongoing review process for the construction of the LCM Project, similar to the processes contemplated by Ind. Code §§ 8-1-8.5-6 and 8-1-8.7-7.

Petitioner's case-in-chief testimony will provide greater detail about the LCM Project, the need for the Project, and the associated estimated costs, estimated schedules, project management controls, etc. Petitioner's case-in-chief testimony will also explain its proposed ratemaking and accounting treatment in greater detail.

5. **Relevant Indiana Statutes; Applicable Law.** Indiana law provides for: Commission approval of a utility's nuclear plant Life Cycle Management activities if it finds such activities to be reasonable and necessary; timely recovery of construction, operation and maintenance costs along with study, analysis and development costs, associated with LCM activities; other financial incentives for LCM activities; and authority to utilize deferred accounting as necessary to accomplish the above. For example:

Ind. Code Chapter 8-1-8.8 provides for the timely recovery of construction, operation and maintenance costs, as well as study, analysis and development costs, associated with Life Cycle Management activities at a nuclear plant such as the Cook Plant. Ind. Code Chapter 8-1-8.8 also provides for other financial incentives for nuclear plant Life Cycle Management activities.

Ind. Code § 8-1-2-23 provides that the Commission shall keep itself informed of all new construction, extensions and additions to the property of a public utility and further provides that unless a public utility has obtained the Commission's approval of any expenditure exceeding \$10,000 for an extension, construction, addition or improvement of its plant and equipment, the Commission may not, in

any proceeding involving the rates of such utility, consider the property acquired by such expenditures as a part of the rate base, unless in such proceeding the utility shows that such property is in fact used and useful in the public service.

Ind. Code §§ 8-1-2-10, -12, and -14, outline the Commission' authority with respect to the books and accounts of public utilities, as related to Petitioner's request to defer certain costs and expenses associated with its LCM Project on an interim basis, until such costs are reflected in Petitioner's retail electric rates.

Indiana Code § 8-1-2-42(a), among other provisions, provides for Commission approval of rate adjustment mechanisms.

Indiana Code §§ 5-14-3-4 and 8-1-2-29 provide for confidential treatment of trade secrets.

6. **Request for Prehearing Conference and Reasonably Expeditious Procedural Schedule.** Petitioner requests that pursuant to 170 IAC 1-1.1-15, the Commission promptly convene a prehearing conference for purposes of establishing a procedural schedule in this Cause. In addition, Petitioner offers to promptly hold a technical conference for the Commission, the Office of the Utility Consumer Counselor, and any other interested parties to discuss all aspects of the LCM Project and this filing. Petitioner respectfully submits that it is important to complete this proceeding in a reasonably expeditious manner so that low cost, essentially emission free generation will continue to be a cost-effective generation resource for Petitioner and its Indiana customers for years to come.

7. **Petitioner's Counsel.** I&M's duly authorized representatives to whom all correspondence and communication in this Cause should be sent are:

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Courtesy copy to:

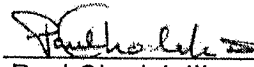
Scott M. Krawec
Indiana Michigan Power Company
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WHEREFORE, Petitioner, I&M, respectfully requests that the Commission, after notice and hearing, issue an order granting relief requested by this Verified Petition and grant Petitioner such other and necessary relief in the premises as may be appropriate.

³ A Verified Petition for Limited Admission to Practice before the Commission will be filed with the Commission.

Respectfully submitted,

INDIANA MICHIGAN POWER COMPANY


By: 

Paul Chodak III
President and Chief Operating Officer
Indiana Michigan Power Company

VERIFICATION

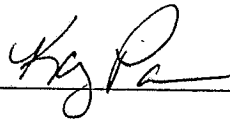
I, Paul Chodak, President of Indiana Michigan Power Company (I&M),
affirm under penalties of perjury that the foregoing representations are true and correct
to the best of my knowledge, information and belief.

Date: April 13, 2012



Paul Chodak III
President and Chief Operating Officer

Respectfully submitted,

By: 

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Counsel for Indiana Michigan Power Company

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CERTIFICATE OF SERVICE

The undersigned, one of the attorneys for Indiana Michigan Power Company, certifies that on the 13th day of April, 2012, a copy of the foregoing Verified Petition was served upon the Office of the Utility Consumer Counselor, PNC Bank Center, 115 W. Washington Street, Suite 1500 S, Indianapolis, IN 46204, via U.S. Mail, postage prepaid, and by email.



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